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TELEGRAM

March 02, 2004

To: No Action Addressee
Action: Unknown
From: AMEMBASSY ABU DHABI (ABU DHABI 552 - ROUTINE)
TAGS: PREL, ETRD, ECIN, ETTC, ECON, KIPR
Captions: None
Subject: UAE BOOSTS EXPORTS TO GCC, THANKS TO CUSTOMS UNION
Ref: None

C O N F I D E N T I A L ABU DHABI 00552

SIPDIS
CXABU:
ACTION: ECON
INFO: P/M AMB DCM POL
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INFO: FCS

DISSEMINATION: ECON
CHARGE: PROG

APPROVED: DCM: RALBRIGHT
DRAFTED: ECON: CCRUMPLER
CLEARED: ECON: OJOHN; CGD:JDAVIS

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RR RUEHC RUEHGV RUEHZM RUCNWTO RUCPDO
DE RUEHAD #0552/01 0621009
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R 021009Z MAR 04
FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC 3355
INFO RUEHGV/USMISSION GENEVA 0544
RUEHZM/GCC COLLECTIVE
RUCNWTO/WORLD TRADE ORGANIZATION COLLECTIVE
RUCPDO/USDOC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 000552

SIPDIS

STATE FOR NEA/ARP, NEA/PPR
STATE PASS USTR - JBUNTIN
USDOC FOR USPTO
USDOC FOR 4250/DOC/MAC/ONE/CLOUSTAUNAU
GENEVA PASS USTR

E.O. 12958: DECL: 03/02/09
TAGS: [PREL](#) [KIPR](#) [ETRD](#) [ECIN](#) [ETTC](#) [ECON](#) [TC](#)
SUBJECT: UAE BOOSTS EXPORTS TO GCC, THANKS TO CUSTOMS UNION

REFS: A) 03 ABU DHABI 2218
B) 03 ABU DHABI 1756
C) 03 ABU DHABI 221
D) 02 ABU DHABI 6910

[1](#)1. (U) Classified by Deputy Chief of Mission Richard A. Albright for reasons 1.5 (b) and (d).

[1](#)2. (C) Summary and comment: One year after its creation,

the GCC Customs Union is proving to be a commercial boon for the UAE -- exports and reexports to the GCC states increased by 33 percent in 2003. Past disputes among GCC members regarding the unified tariff, revenue collection, and border inspections have been resolved (see refs A-C). Most importantly, the UAE Federal Customs Authority -- hastened in its creation by the implementation of the GCC Customs Union on January 1, 2003 -- has developed into a full-fledged UAE federal institution, allowing the individual emirate-level customs departments to speak with one voice in GCC fora. We remain optimistic that the UAE Federal Customs Authority will regularize customs procedures across the UAE, and provide a single entity with which the USG can coordinate its wide range of export control initiatives.

End summary and comment.

UAE Benefits From GCC Customs Union

¶3. (SBU) The UAE's exports and reexports to the GCC states increased to about AED 6.8 billion (USD \$1.85 billion) in 2003 -- an increase of 33 percent over 2002 figures, according to the UAE Federal Customs Authority. (Note: This total does not/not include the considerable volume of transshipped goods that passed through the UAE's free trade zones last year. Exports and reexports include goods manufactured in the UAE, or items imported into the UAE, modified and reexported to a third destination. End note.) UAE customs officials directly attribute the increase in export revenue to the implementation of the GCC Customs Union on January 1, 2003, and the subsequent reduction of tariffs on intra-regional trade.

¶4. (U) Some local businessmen here feared that the customs unification would neutralize Dubai's advantage as an export and reexport hub -- formerly, the UAE's external tariff was much lower than that of other GCC states -- but 2003 statistics proved otherwise. According to the Dubai Chamber of Commerce, the number of certificates of origin issued in Dubai increased 23 percent in 2003. The total value of these exports equaled AED 47 billion (USD \$12.8 billion). Dubai's comparative advantage no doubt lies in its ability to provide first-class communication, transportation, and logistical support to traders.

¶5. (U) Iran was Dubai's number one export destination in 2003, according to the Dubai Chamber of Commerce, but interestingly, Saudi Arabia, Kuwait, Qatar and Oman, respectively, were ranked Dubai's other top export/reexport markets. The prominence of GCC member states on the list of the UAE's most important trading partners is a marked change from previous years.

UAE v. KSA: Can't We All Just Get Along?

¶6. (SBU) The GCC Customs Union has provided UAE traders with unprecedented access to the huge Saudi market. Indeed, General Director of the UAE Federal Customs Authority Mohammed Al-Mehairi told Econoff that earlier problems with Saudi Arabia have subsided (refs A-C). The Emiratis last year threatened retaliatory trade measures against Saudi Arabia if Riyadh continued to levy heavy duties on UAE-origin goods or delay perishable items at the Saudi border. Al-Mehairi said that many of these problems probably resulted from miscommunication between officials in Riyadh and customs officials at the border. UAE traders continue to have problems exporting UAE-origin dairy products to Saudi Arabi, however. Al-Mehairi intimated that certain Saudi royal family members had a vested interest in protecting the Saudi dairy industry, and UAE dairy products often spoiled at the border awaiting "customs clearances."

¶7. (SBU) Al-Mehairi also noted that the Saudis continue to levy duties on goods from the UAE's free zones. Riyadh argues that goods from the free zones are not UAE national products under the GCC Customs Union agreement. With 12 free zones, and more than 10 others in various stages of development, the UAE asked the GCC to designate free zone items as entirely or partially UAE products. To date, the GCC has remained silent on transshipments or products entering the GCC via free zones.

UAE Federal Customs Authority Strengthened

¶8. (C) Separate from the GCC Customs Union, the UAE Federal Customs Authority was created in 2002 to represent the emirate-level customs departments in GCC fora. A year later, the UAE Federal Customs Authority has a new office building, a Director General, and about 25 economists, lawyers, and support staff. Most executive board meetings are held in Dubai, to reduce travel time for customs directors from the northern emirates.

¶9. (C) Al-Mehairi noted that the power shift toward the Federal Customs Authority during the last year was most difficult on Dubai and Executive Chairman of Dubai Ports, Customs and Free Zones Sultan bin Sulayem, who formerly wielded considerable independence and power in customs and trade matters. Although the Customs Authority must obtain consensus of every customs director before taking a federal position, Al-Mehairi said that Shaykh Hamdan occasionally mediates disputes between the enigmatic bin Sulayem and the head of Abu Dhabi Customs Ali Al-Jabri. Bin Sulayem reportedly was loath to relinquish responsibility to Federal Customs Authority inspectors in Dubai, but acquiesced at Hamdan's urging. (Note: There currently are fewer than five federal-level inspectors in Dubai, but the Federal Customs Authority intends to double this number by end-2004. End note.)

¶10. (C) In a recent meeting with the Consul General, bin Sulayem admitted that there is much more coordination between the emirate-level customs departments, thanks to the Federal Customs Authority. He said that each Director of Customs Affairs retains some degree of independence under the new system, but safety and inspection procedures are completely regularized across the emirates. Although there is supposed to be a harmonized federal system of customs valuation and revenue collection, bin Sulayem said such coordination is "nonexistent" in practice.

¶11. (SBU) Al-Mehairi told Econoff that the Federal Customs Authority intends to deploy by 2005 a single electronic network among customs departments and with the GCC countries to unify the technical customs procedures. He admitted, however, that there is considerable debate about which electronic system to use -- the system currently used by Abu Dhabi or Dubai Custom's system -- and is an example of the challenges he faces in coordinating even minor details among customs departments. Al-Mehairi said that the Abu Dhabi system is user-friendly and aggregates data quickly. The Dubai system, however, is more elaborate and can collect a broader variation of data, and already is installed in some of the northern emirates customs departments.

Wahba